

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 EURE-00 SSO-00 INRE-00

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AMCONSUL DUSSESDORF

AMEMBASSY TOKYO

USMISSION OECD PARIS

USDEL MTN GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 11580

E.O. 11652: N/A

TAGS: EEC, EIND, ETRD, JA

SUBJECT: SIMONET CRISIS PLAN FOR EC STEEL INDUSTRY

REF: (A) EC BRUSSELS 9681, (B) EC BRUSSELS A-443,
(C) EC BRUSSELS 11218

1. SUMMARY: THE EC COMMISSION HAS APPROVED ITS STEEL POLICY PLAN WHICH HAS BEEN THE SUBJECT OF CONSULTATIONS THROUGHOUT THE COMMUNITY SINCE JULY. THE COMMISSION HOPES THE PLAN WILL ENABLE IT TO DEAL MORE EFFECTIVELY WITH FUTURE CRISES AND HELP THE EC STEEL INDUSTRY THROUGH WHAT IS DESCRIBED AS THE WORST CRISIS IN ITS HISTORY AND WHICH SHOWS NO SIGNS OF ABATING AT PRESENT. THE ESSENCE OF THE PLAN IS TO TAKE FULL ADVANTAGE OF THE COMMISSION'S CONSULTATIVE POWER UNDER ARTICLE 46 OF THE TREATY BEFORE RESORTING TO THE MORE DRASTIC COMPULSORY PROVISIONS OF ARTICLE 58, WHICH WOULD REMAIN AS A SECOND LINE OF DEFENSE IF THE VOLUNTARY MEASURES

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PROVE INEFFECTIVE. DOUBTS REMAIN, HOWEVER, ABOUT THE

COMMISSION'S ABILITY TO MAKE THE PLAN WORK AND WHETHER THE NEWLY-ACQUIRED THEORETICAL INDEPENDENCE OF THE COMMISSION ON CRISIS MATTERS WILL BE REALIZED IN PRACTICE. END SUMMARY.

2. THE EC COMMISSION ANNOUNCED ON NOV. 25 FORMAL APPROVAL OF ITS ANTI-CRISIS PROGRAM FOR THE EUROPEAN STEEL INDUSTRY THIS PROGRAM IS THE RESULT OF MONTHS OF CONSULTATIONS UNDERTAKEN BY EC COMMISSIONER HENRI SIMONET WITH MEMBER STATE GOVERNMENTS AND CONCERNED CIRCLES AND IS AIMED AT PRODUCING A MORE EFFECTIVE MECHANISM FOR DEALING WITH CRISES IN THE INDUSTRY THAT THE CURRENT POLITICALLY CUMBERSOME PROCESS (REFTEL A).

3. ALTHOUGH THE PLAN HAS PASSED THROUGH SEVERAL DRAFTS, THE FINAL COMMISSION DOCUMENT IS SUBSTANTIVELY SIMILAR TO THE FORMULA DRAWN UP IN THE DISCUSSION PAPER WHICH APPEARED IN JULY (REF B). THE PLAN IS DIVIDED INTO SECTIONS FOR CRISIS MEASURES, PRICES, INTERNATIONAL RELATIONS, SOCIAL AND REGIONAL QUESTIONS, AND PERMANENT MEASURES.

4. THE SIMONET PLAN GIVES THE COMMISSION ALONE THE POWER TO APPLY CRISIS MEASURES--AFTER CONSULTATIONS WITH MEMBER STATE GOVERNMENTS AND THE ECSC--ON THE BASIS OF INDICATORS (YET TO BE DEFINED). THE COMMISSION WILL ISSUE VOLUNTARY GUIDELINES TO FIRMS ON A REGIONAL OR NATIONAL BASIS FOR PRODUCTION OR DELIVERY. BECAUSE OF OPPOSITION FROM COMPETITION OFFICIALS, THE COORDINATION POINT WILL NOT BE EUROFER, THE NEW JOINT ASSOCIATION OF IRON AND STEEL PRODUCERS. THIS VOLUNTARY PROGRAM WILL NOT PRECLUDE THE APPLICATION OF ARTICLE 58, MANDATORY PRODUCTION QUOTAS IF THE VOLUNTARY GUIDELINES ARE INSUFFICIENT. THE COMMISSION ALSO INTENDS TO FIX MINIMUM REFERENCE PRICE AS A SECONDARY STAGE IF THE VOLUNTARY QUOTAS PROVE INADEQUATE AS PRICE SUPPORTS.

5. THE PLAN SUPPORTS THIRD COUNTRY CONSULTATIONS IF IMPORTS AGGRAVATE THE CRISIS. THESE CONSULTATIONS SHOULD LEAD TO "VOLUNTARY COLLABORATION" RATHER THAN BINDING LIMITED OFFICIAL USE

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COMMITMENTS AND SHOULD BE LIMITED TO PERIODS OF GENUINE RECESSION. THE COMMUNITY RECENTLY OBTAINED JAPANESE INDUSTRY AGREEMENT TO RESTRICT STEEL EXPORTS, WHICH HAVE RISEN DRAMATICALLY, TO A VOLUME BELOW THE 1976 LEVEL (REF C).

6. AS PART OF THE SOCIAL AND REGIONAL POLICY, THE COMMISSION WILL STUDY AND ESTABLISH GUIDES ON THE

RECONVERSION OF WEAK REGIONS.

7. PERMANENT MEASURES INCLUDE AN IMPROVEMENT IN MARKET ANALYSIS AND CLOSER MONITORING AND SUPERVISION OF INVESTMENT RELATED ACTION. THE COMMISSION INTENDS TO TAKE MORE NEGATIVE POSITIONS WHEN IT FEELS INVESTMENT WOULD LEAD TO OVER-CAPACITY AND HOPES TO PROMOTE CLOSER CONSULTATION WITH INDUSTRY ON INVESTMENT TRENDS. THE COMMISSION ALSO INTENDS TO USE ITS CREDIT POLICY TO FACILITATE JOINT INVESTMENTS IN HEAVY PRODUCTION EQUIPMENT.

8. ACCORDING TO SIMONET, THE PLAN MET WITH LARGELY FAVORABLE RECEPTION FROM BUSINESS, GOVERNMENT AND LABOR GROUPS WHICH HAVE BEEN CONSULTED. BUT IT IS KNOWN THAT THE FRG AND SOME INTERMEDIATE STEEL PRODUCER ASSOCIATIONS RETAIN FUNDAMENTAL RESERVATIONS ON THE NATURE OF THE EC PLAN.

9. ORIGINALLY, THE COMMISSION'S STRATEGY WAS TO BYPASS COMPLETELY THE EC COUNCIL WHICH, UNDER THE EUROPEAN COAL AND STEEL COMMUNITY TREATY (ARTICLE 58) HAS THE FINAL AUTHORITY TO DECLARE A "MANIFEST CRISIS", WHICH ALLOWS THE COMMISSION TO SET MINIMUM PRICES AND MANDATORY PRODUCTION QUOTAS. THE COMMISSION AND SIMONET HOPED TO ACHIEVE THE SAME RESULTS BY USING ARTICLE 46 WHICH ALLOWS THE COMMISSION A WIDE RANGE OF CONSULTATIVE ACTION AND GUIDANCE WITHOUT GIVING IT THE POWER TO SET OBLIGATORY MINIMUM PRICES OR PRODUCTION QUOTAS. HOWEVER, MEMBER STATES AND ESPECIALLY THE FRG OPPOSED THE PLAN AS BEING TOO DIRIGISTE AND THE COMMISSION HAS TO TONE DOWN CERTAIN POINTS. ACCORDING TO SOURCES IN THE UK AND FRG PERMEELS THEY ARE STILL NOT COMPLETELY HAPPY WITH THE PLAN AND, BECAUSE OF THIS, SIMONET IS LIKELY TO SEND THE LIMITED OFFICIAL USE

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PROGRAM TO THE COUNCIL FOR DISCUSSION (WHICH COULD RESULT IN ADDITIONAL CHANGES) INSTEAD OF SIMPLY INFORMING THE COUNCIL AS WAS ORIGINALLY PLANNED. NEVERTHELESS FORMAL COUNCIL APPROVAL IS NOT REQUIRED.

10. EC OFFICIAL UNDERSCORED THE URGENT NEED FOR ACTION BY RELAEASING STATISTICS THIS WEEK WHICH PORTRAYED THE PRECARIOUS STATE OF THE COMMON STEEL MARKET. NEW ORDERS FOR ROLLED PRODUCTS RECEIVED IN THE COMMUNITY IN OCTOBER WERE AT THE LEVEL OF THE MONTHLY AVERAGE FOR 1975 (WHICH WAS ITSELF A CRISIS YEAR) AND REPRESENT A CONTINUING DECLINE IN ORDERS OVER RECENT MONTHS. ALSO, COMMISSION STEEL EXPERTS WORKING ON PROJECTIONS FOR THE FIRST QUARTER 1977 TOLD THE COMMISSION THAT PRODUCTION IS LIKELY TO DROP SIX PERCENT BELOW THE FOURTH QUARTER LEVEL OF

33.7 MILLION TONS. EC OFFICIALS POINT TO THESE FIGURES AS PRIMA FACIE EVIDENCE THAT THE EUROPEAN STEEL INDUSTRY IS NOT RECOVERING AND MAY EVEN BE SLIPPING BACKWARDS. THESE OFFICIALS TOLD MISSION OFFICER THAT IN THE DEC. 2-3 BILATERAL STEEL CONSULTATIONS WITH THE US, THE COMMISSION WILL CERTAINLY LAY HEAVY STRESS ON THE SAD STATE OF THEIR STEEL INDUSTRY.

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11. PRIMARY EXPLANATIONS FOR THE RECENT DECLINE INCLUDE THE ABSENCE OF DEMAND FOR INVESTMENT GOODS (AS OPPOSED TO FAIRLY STRONG DEMAND FOR CONSUMER GOODS, , WHICH CONSUME RELATIVELY LITTLE STEEL) AND THE END OF RESTOCKING WHICH OCCURRED OVER THE FIRST HALF OF 1976. BUYERS ARE REPORTEDLY SHYING FROM MAJOR CAPITAL PURCHASES BECAUSE OF GENERAL ANXIETY OVER THE ECONOMIC SITUATION AND THE HIGH INTEREST RATES WHICH MAKE CREDIT FOR SUCH INVESTMENT

EXPENSIVE. WITH A LACK OF INVESTMENT DEMAND, STEEL PURCHASERS ARE POSTPONING ANY FURTHER STOCKING BECAUSE

THEY BELIEVE THAT PRICES, WHICH HAVE FALLEN marginally
IN RECENT MONTHS, WILL PROBABLY DECLINE FURTHER TOWARDS
THE WORLD PRICE--USUALLY 10 TO 15 PERCENT BELOW EC PRICES.

12. COMPOUNDING THE PROBLEM, ACCORDING TO EC OFFICIALS,
IS THE CONTINUING ONSLAUGHT OF JAPANESE AND SPANISH EXPORTS
TO THE COMMUNITY AND TRADITIONAL EC EXPORT
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MARKETS. THESE EXPORTS HAVE CUT THE EXTERNAL STEEL
TRADE SURPLUS FROM 26 MILLION TONS IN 1974 TO 8 MILLION
AT PRESENT AND PROBABLY 1 MILLION BY EARLY 1977. EC
STEEL OFFICIALS SAY THIS IMPORT INCREASE IS BOUPLY
PERNICIOUS BECAUSE IT OCCURS PRIMARILY IN THOSE PRODUCTS
WHERE OVERALL DEMAND HAS BEEN FALLING (SECTIONS, BARS AND
HEAVY PLATES). FURTHERMORE, ALTHOUGH IMPORT COMPETITION
HAS NOT BEEN FELT IN SHEET AND WIRE ROD PRODUCTS, WHICH
SUPPLY CONSUMER AND CONSTRUCTION NEEDS RESPECTIVELY,
COMMISSION EXPERTS EXPECT THAT DEMAND IN THESE PRODUCTS
WILL DECLINE QUICKLY IF THE RECESSION CONTINUES WITH
CONSUMER PURCHASING LEVELING OFF AND CONSTRUCTION PROGRAMS
BEING CURTAILED BY FINANCIALLY PRESSED GOVERNMENTS
SEEKING TO REDUCE PUBLIC WORKS EXPENDITURES.

13. COMMISSIONER BRUNNER HAS TOLD THE AMBASSADOR THAT
THE MOST CRUCIAL STEEL QUESTION WHICH THE COMMUNITY
FACES IS THE IMPENDING COLLAPSE OF THE WALLONIA REGION
STEEL INDUSTRY IN BELGIUM. HE SAID THE COMPANIES THERE
WOULD GO UNDER IN THREE MORE MONTHS IF THEY ARE NOT
HELPED. IT IS DIFFICULT, BRUNNER SAID, TO GET OTHER
COMMUNITY PRODUCERS TO ACCOMMODATE THE WALLONIA REGION
WHEN THEY THEMSELVES ARE FEELING THE TIGHT PINCH CAUSED
BY JAPANESE IMPORTS.

14. THERE IS LITTLE CONFIDENCE AMONG COMMISSION AND
MEMBER OFFICIALS THAT THE SIMONET PLAN CAN HELP THE
PRESENT SITUATION OR EVEN HELP PREVENT FUTURE CATASTROPHES
IN THE INDUSTRY. THE COMMISSION OFFICIAL RESPONSIBLE FOR
MARKET FORECASTS, REGINALD SPENCE, TOLD THE MISSION THAT
THE SUCCESS OF THE PLAN DEPENDED ON THE COMMISSION'S
ABILITY TO MAKE ACCURATE SHORT-TERM FORECASTS. SPENCE
DOUBTED THAT THE COMMISSION WAS UP TO THE TASK OWING TO
THE GREAT VOLATILITY OF THE MARKET. HE SAID THAT THE
MARKET WAS REACHING CRITICAL LOW POINTS WHERE "STRANGE"
BEHAVIOR BEGAN-- AS WHEN PRODUCTION RUNS OF ONE STEEL
PRODUCT BECAME UNECONOMICAL, LEADING EITHER TO BATCHING
OR ORDERS OR SHORT-TERM DISAPPEARANCE FROM THE MARKET.
SPENCE SAID HE WAS FRIGHTENED BY THE PROSPECT OF
TRYING TO MAKE THE SIMONET PLAN WORK AND FELT THE
DANGERS WERE GREATER THAN THE BENEFITS.

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15. PERMDEL SOURCES GENERALLY CLAIMED THAT THE MEMBER STATES WILL NO IN PRACTICE GIVE UP THE VETO POWERS WHICH PREVENTED THE MANIFEST CRISIS PROVISIONS OF THE PARIS TREATY FROM WORKING. ONE FRG PERMDEL SOUCE SAID THAT THE COMMISSION WOULD NEVER DO SOMETHING WHICH A MEMBER STATE RESOLUTELY OPPOSED, AND THUS THE REQUIREMENT IN THE PLA TO HAVE DISCUSSIONS WITH MEMBER STATES, BEFORE IMPLEMENTING MEASURES IN THE NEW PROGRAM, LEFT MEMBER STATE POWERS VIRTUALLY INTACT. A UK PERMDEL SOURCE DISMISSED THE PLAN AS A SIMONET POLITICAL SHOW AND PREDICTED THAT THE COMMISSION WOULD RUN INTO TROUBLE FOR HAVING PUSHED THE PLAN SO FAST.

16. MISSION WILL SEND FINAL TEXT OF PLAN WHEN AVAILABLE.
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Message Attributes

Automatic Decaptioning: X
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